How can Australian governments change the game for economic growth?

Published online in The Conversation, Friday 8 June 2012

A small number of hard choices can improve the nation's prosperity, writes ***John Daley.***

If Australian governments are serious about raising rates of economic growth, they must reform the tax mix and increase the workforce participation rates of women and older people. Each of these reforms has the capacity to increase GDP by around $25 billion by 2022. Together, they could grow the economy by more than $70 billion. Nothing else can change the economic game over the next decade.

The Grattan Institute report, *Game-changers: Economic reform priorities for Australia*, examines a wide range of economic reform opportunities. It assesses various economic drivers according to both the size of the growth opportunity over the next decade, and the confidence in specific policy solutions. That confidence matters: Australian governments have achieved their most lasting reforms when policy specialists have broadly agreed on a problem and on an evidence-based rationale for change.

The three game-changers, unlike any other proposals we could identify, enjoy broad policy support and promise very large economic benefits within a practical time frame.

If Australian governments collected more revenue from efficient taxes that encourage economic activity, and less from inefficient, distortionary ones, GDP could increase by $25 billion per year. In particular, we need to broaden the GST to cover education, health and food, and use the revenue to reduce corporate and income taxes while compensating those on welfare.

Australian women would only have to participate in the workforce at Canadian rates to deliver a $25 billion boost to the economy. The big driver of female participation rates is how much extra income working women take home after paying tax, forgoing benefits and paying for child care. Many women in Australia only keep 10 to 20 cents of every dollar they earn if they work five days per week instead of three. Canada shows how changes to taxes, benefits, and means testing can substantially increase participation.

GDP would be $25 billion higher by 2022 if the workplace participation rate of older Australians were raised so that they were closer to levels in New Zealand. Most people retire in Australia because they "reach retirement age". Discrimination and employer attitudes are not major problems for most workers. Therefore the biggest driver to increase older age workforce participation would be to lift the eligibility age for the aged pension and for superannuation.

What is striking about these findings is less the reforms themselves – each of which is familiar to policymakers – but how clearly a strictly economic analysis sets them apart. Of course, growing GDP is not the only goal of government. In the end, well-being and happiness matter most, and individuals and families make decisions on that basis.

But, as Mae West (reportedly) said, "I've been rich and I've been poor. Rich is better." Our starting point is that economic growth is the great enabler of good policy across government. It provides the resources to improve the well-being of our citizens, to increase living standards and to enable communities to invest in the non-material factors that enrich people's lives.

Our research identifies several other reform areas that inherently matter to economic growth, but where there is little consensus on which specific reforms might make a big difference. They include

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innovation policy, industry policy and competition policy. In industrial relations there is not yet good evidence on the size of the economic gains on offer. In school system performance there are very large gains, but only over the long term.

A number of issues regularly touted as major reform priorities don't show up as big drivers of future growth. We know that transport infrastructure, for instance, can significantly increase growth, particularly when it increases trade. But recent analysis suggests that returns on infrastructure investment are lower than once thought. We don't believe that further increasing investment in this area can produce substantial gains in the near term.

Major reforms are hard. They take time and resources to implement, and in government both are scarce. Political capital is finite, as is the senior leadership time required to see big reforms through. On past performance, one substantial reform every four years is better than average.

In the current political climate, with a 24-hour news cycle and little money to "buy off" perceived losers, major reform may seem a distant prospect. But it's equally possible to see this moment as an opportunity. Australia faces great challenges in the next 20 years: the mining boom and its impacts on the wider economy, climate change, the rise of a billion-strong Asian middle class; an under-performing education system and an ageing population. Only bold, clear-eyed leadership can meet these challenges.

We hope that Game-changers might start a discussion about the small number of hard choices the nation needs to make to substantially improve its prosperity.

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